

Reply to Common Council File No. 021039 and 010851
From DOA-Budget and Management Division

December 12, 2002

Ref: 01013 (33&34)

Common Council files 021039 and 010851 both relate to the establishment of a Tax Stabilization Fund (TSF) policy that is consistent with generally accepted national standards. Council file 021039 is resolution establishing the policy while file 010851 is an ordinance that creates this new policy and repeals the existing policy.

The new policy would establish new guidelines for use of the TSF. Withdraw amounts from the TSF would be limited by the policy, however, there is the ability to use a higher amount if the budget situation warrants. The goal of the policy will be to maintain a balance in the TSF that is approximately 7.5% of the 3-year average of general fund budget expenditures. Under the new policy, there is limitations to withdraw amounts based on the previous year's TSF withdraw and by the amount that the fund regenerates.

The new TSF withdraw policy would be limited to the following:

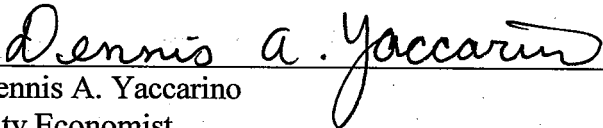
1. If the TSF balance falls below 5% of the 3-year average general fund expenditures then the withdrawal would be limited to 95% of the previous year's TSF regeneration.
2. If the TSF balance falls between 5% and 7.5% then the withdrawal would be limited to the previous year's TSF regeneration.
3. If the TSF balance falls between 7.5% and 10% then the withdrawal may exceed the previous year's TSF regeneration as long as the TSF balance does not fall below the 5% guideline.
4. If the TSF balance is greater than 10% then a draw must be made to maintain the balance at least 10% but not fall below the 5% guideline. The amount used of the TSF balance that is above 10% must be to increase cash financing for capital projects or pre-pay debt. The intent is to avoid the creation of new on-going costs that will not have an on-going revenue source.

The 3-year average of the general fund expenditures is used in lieu of the annual general fund expenditures to smooth the impacts caused by the timing of salary settlements, one-time large legal settlements, etc.

It is preferred that we proceed with the policy in the form of a resolution. This allows the formal recognition of the policy by the Mayor and Common Council without restricting the budget decision making process. This allows time for the city to determine if the policy is consistent with its other goals. Upon a successful trail period with the new TSF policy, the city could establish the policy in an ordinance at a later date.

Furthermore, the resolution will become an adopted policy by the city that will be recognized by bond rating agencies and other entities that influence the city's financial status.

RECOMMENDATION: ADOPT COMMON COUNCIL RESOLUTION 021039 THAT RELATES TO THE MAINTENANCE OF AN UNRESTRICTED FUND BALANCE IN THE TAX STABILIZATION FUND AND PLACE COMMON COUNCIL ORDINANCE 010851 ON FILE.


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